

Regions Investment Management

Quarterly Overview

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of December 31, 2019

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Bond Portfolio Overview

- Characteristics
- Performance
- Manager Universe
- Allocation Detail

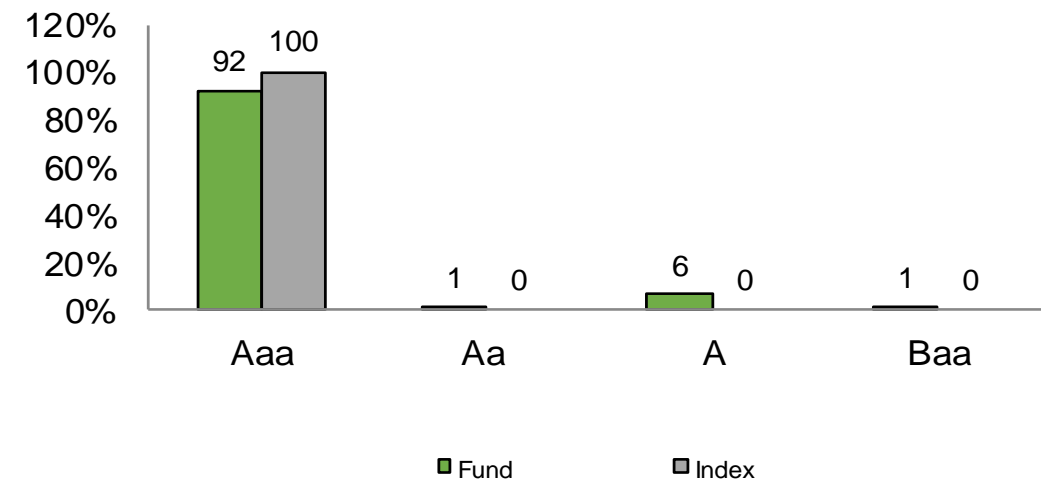
4Q19 Fixed Income Portfolio Overview

*** Market Value for Fixed Income Portfolio: \$85.8 million ***

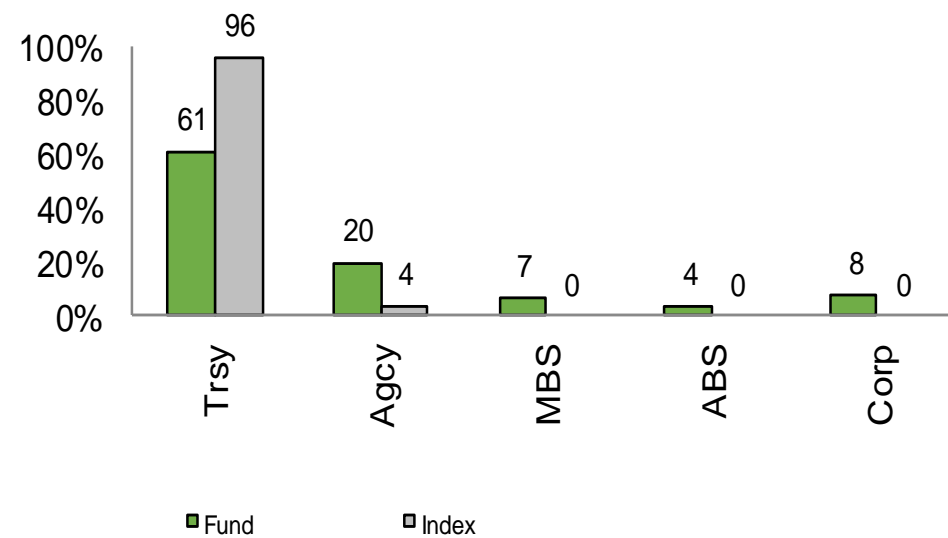
Portfolio Characteristics

| | Fund | Index |
|--------------------|----------|----------|
| Yield to Maturity | 1.69% | 1.60% |
| Effective Duration | 1.86 Yrs | 1.90 Yrs |
| Maturity | 2.06 Yrs | 1.96 Yrs |
| Average Coupon | 2.00% | 2.01% |
| Average Quality | Aaa | Aaa |

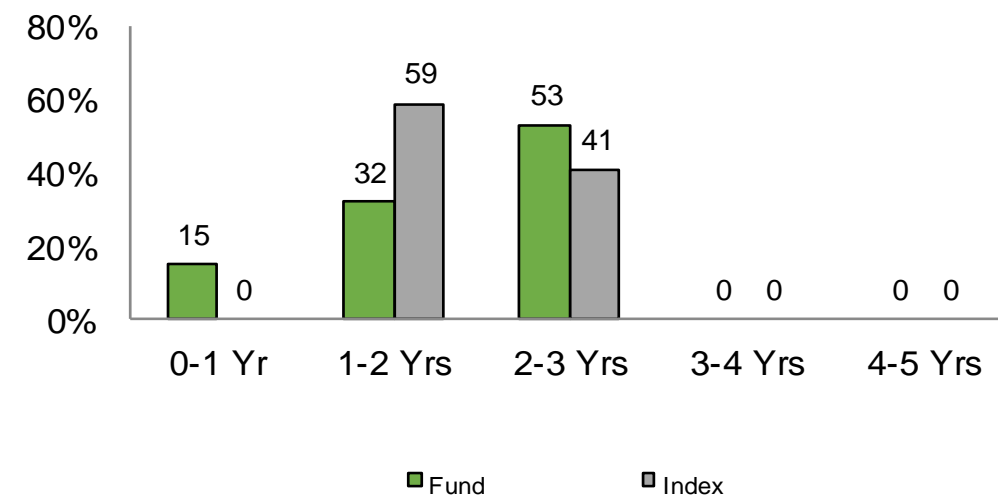
Quality vs. Index



Sector Distribution vs. Index



Duration Distribution vs. Index



Source: Portfolio: Bondedge; Index: Bloomberg Barclay's 1-3 Year Govt

State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

Total Returns Compared with the Benchmark

As of 12/31/2019

| | Qtr | YTD | 1-Yr | 3 Years * | Inception * |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Consolidated Portfolio | 0.51% | 3.46% | 3.46% | 2.12% | 1.95% |

| | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Money Market Fund | 0.41% | 2.10% | 2.10% | 1.66% | 1.32% |
|--------------------------|--------------|--------------|--------------|--------------|--------------|

| | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Income Portfolio | 0.51% | 4.00% | 4.00% | 2.31% | 2.10% |
| 1-3 YR Govt Only | 0.51% | 3.59% | 3.59% | 1.86% | 1.61% |
| <i>Excess Return</i> | <i>0.00%</i> | <i>0.41%</i> | <i>0.41%</i> | <i>0.45%</i> | <i>0.49%</i> |

| | | | | | |
|--------------------|-------|-------|-------|-------|-------|
| 1-3 YR Govt/Credit | 0.59% | 4.03% | 4.03% | 2.15% | 1.93% |
|--------------------|-------|-------|-------|-------|-------|

Returns are shown **net of mgmt. fees**; annual management fee is five (5) basis points, or 0.05%

Past performance does not guarantee future returns; *Periods greater than one year are annualized; Inception Date as of 12/31/2015

Source: SEI & Bloomberg Barclays

Indexes: Bloomberg Barclays

State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

Allocation Detail

INVESTMENT RETURN SUMMARY - QUARTER ENDING DECEMBER 31, 2019

| Name | Current Quarter Total Return | Prior Quarter Market Value | Net Cashflow | Investment Return | Current Quarter Market Value * |
|--------------------------|------------------------------|----------------------------|----------------------|-------------------|--------------------------------|
| Fixed Income | 0.54% | \$65,153,610 | \$19,935,738 | \$459,834 | \$85,549,182 |
| Money Market Mutual Fund | 0.41% | 29,839,552 | -22,931,277 | 74,964 | \$6,983,239 |
| Demand Deposit | 0.00% | 559,301 | 215,244 | 0 | \$774,545 |
| Total Portfolio | | \$95,552,463 | (\$2,780,295) | \$534,798 | \$93,306,966 |

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,138,417.71 that was in the Treasury Account on December 31, 2019.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING DECEMBER 31, 2019

| Prior Quarter Market Value | % | Fund Name | Style | Current Quarter Market Value * | % |
|----------------------------|-------------|--------------------------|---------------|--------------------------------|-------------|
| \$4,494 | 0% | Residual | (CASH) | 4,513 | 0% |
| \$65,153,610 | 68% | Fixed Income | (STFX) | 85,549,182 | 89% |
| \$29,839,552 | 31% | Money Market Mutual Fund | (CASH) | 9,983,239 | 10% |
| \$559,301 | 1% | Demand Deposit | (CASH) | 774,545 | 1% |
| \$95,556,957 | 100% | | (TOTL) | 96,311,479 | 100% |

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,138,417.71 that was in the Treasury Account on December 31, 2019.

*Source: SEI

Economic & Financial Market Update

Market Returns

| Equities | YTD As of 12/31/19 | Trailing 3 Months 12/31/19 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-----------------------|----------------------------------|---------|--------|--------|---------|--------|--------|
| S&P 500 Index (Large Cap Stocks) | 31.49% | 9.07% | -4.38% | 21.83% | 11.96% | 1.38% | 13.69% | 32.39% |
| <i>S&P 500 (Large Cap Growth)</i> | 31.13% | 8.32% | -0.01% | 27.44% | 6.89% | 5.52% | 14.89% | 32.75% |
| <i>S&P 500 (Large Cap Value)</i> | 31.93% | 9.93% | -8.95% | 15.36% | 17.40% | -3.13% | 12.36% | 31.99% |
| Russell 2500 Index (Small to Mid Cap Stocks) | 27.77% | 8.54% | -10.00% | 16.81% | 17.59% | -2.90% | 7.07% | 36.80% |
| <i>Russell Mid Cap TR USD</i> | 30.54% | 7.06% | -9.06% | 18.52% | 13.80% | -2.44% | 13.22% | 34.76% |
| <i>Russell 2000 Index (Small Cap Stocks)</i> | 25.52% | 9.94% | -11.01% | 14.65% | 21.31% | -4.41% | 4.89% | 38.82% |
| MSCI ACWI Ex-US (Foreign Stocks, Net Return) | 21.51% | 8.92% | -14.20% | 27.19% | 4.50% | -5.66% | -3.87% | 15.29% |
| <i>MSCI EAFE Index (Foreign Stocks, Net Return)</i> | 22.01% | 8.17% | -13.79% | 25.03% | 1.00% | -0.81% | -4.90% | 22.78% |
| <i>MSCI EM (Foreign Stocks, Net Return)</i> | 18.42% | 11.84% | -14.58% | 37.28% | 11.19% | -14.92% | -2.19% | -2.60% |
| Fixed Income | | | | | | | | |
| Barclays US Agg Bond TR USD | 8.72% | 0.18% | 0.01% | 3.54% | 2.65% | 0.55% | 5.97% | -2.02% |
| BofA Merrill Lynch Muni 1-12 YR (Muni Bonds) | 5.64% | 0.73% | 1.62% | 3.21% | 0.02% | 2.34% | 4.27% | -0.12% |
| Barclays Global Agg Ex USD TR | 5.09% | 0.67% | -2.15% | 10.51% | 1.49% | -6.02% | -3.08% | -3.08% |
| Barclays High Yield Corp TR USD | 14.32% | 2.61% | -2.08% | 7.50% | 17.13% | -4.47% | 2.45% | 7.44% |
| Barclays US Treasury US TIPS | 8.43% | 0.79% | -1.26% | 3.01% | 4.68% | -1.44% | 3.64% | -8.61% |
| FTSE Treasury Bill 3 Month (Money Market) | 2.25% | 0.46% | 1.86% | 0.86% | 0.33% | 0.05% | 0.03% | 0.05% |
| Diversified Strategies | | | | | | | | |
| HFRX Global Hedge Index | 8.68% | 2.62% | -6.72% | 5.98% | 2.50% | -3.64% | -0.58% | 6.72% |

Source: Morningstar

Economy

Overview & Outlook

| | | | |
|---------|---|--|---|
| Economy |  | <p><u>Risks:</u></p> <ul style="list-style-type: none"> ▪ Business sentiment continues to erode as trade disputes intensify, choking off business investment ▪ A slowing Chinese economy drags other Asian nations and the Euro Zone down ▪ Low/negative interest rates distort asset prices and lead to unsustainable growth in debt | <p><u>Opportunities:</u></p> <ul style="list-style-type: none"> ▪ Labor market conditions continue to improve ▪ Rising real incomes ▪ Solid rate of house price appreciation ▪ Healthy household balance sheets |
|---------|---|--|---|

Consumers Remain In The Driver's Seat

Mixed Data On Manufacturing

- The BEA's second estimate puts annualized Q3 real GDP growth at 2.1 percent, up from their first estimate of 1.9 percent growth. The bigger picture did not change – consumer spending was the main driver of Q3 growth, with support from government spending and residential fixed investment, while business fixed investment contracted for a second consecutive quarter.¹ At present, Q4 growth is tracking at just under 2.0 percent.
- The data on the manufacturing sector have been mixed, but, keep in mind the GM strike impacted the past two months of data. The ISM Manufacturing Index fell to 48.1 percent in November, leaving the headline index below the 50.0 percent break between contraction and expansion for a fourth straight month. The ISM's gauges of new orders, employment, and production all contracted further in November.²
- Other factory sector indicators were more upbeat. Core capital goods orders rose by 1.1 percent in October, while core capital goods shipments (this series feeds into the GDP data on business investment) rose by 0.8 percent,³ offering some hope that, having slumped over recent months, capital spending is at least beginning to stabilize. At the same time, excluding motor vehicles & parts production, manufacturing payrolls have continued to rise in 2019, including a gain of 12,700 jobs in November.⁴
- The ISM Non-Manufacturing Index slipped to 53.9 percent in November from 54.3 percent in October, but the gauges of new orders and employment both rose.² The ISM's non-manufacturing data should help allay fears that weakness in the industrial sector is dragging the broader economy down.

Slow But Steady Growth, Mild Inflation To Keep FOMC On Hold For A While

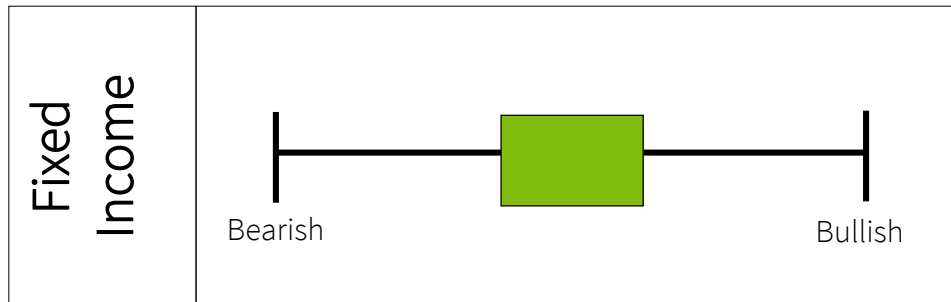
- Total nonfarm employment rose by 266,000 jobs in November, making a mockery of forecasts (ours included) of a much smaller increase. At the same time, prior estimates of job growth in September and October were revised higher by a net 41,000 jobs.⁴ The return of striking GM workers, who were not counted as employed in October, boosted measured job growth in November, as did an extra week between the October and November survey periods.
- Even if, as we suspect, measured November job growth is a bit overstated, the trend rate of job growth remains solid. At an average of 187,000 jobs per month over the past year, job growth remains more than sufficient to keep downward pressure on the unemployment rate and upward pressure on wage growth. In addition, job growth remains notably broad based across private sector industry groups, which to us is a sign the expansion has further room to run.
- The unemployment rate fell to 3.5 percent in November, while the broader U6 rate, which also accounts for underemployment, fell to 6.9 percent, matching September as the lowest reading since October 2000. Average hourly earnings rose by 0.2 percent in October, leaving them up 3.1 percent year-on-year, the 16th consecutive month with over-the-year growth at or above 3.0 percent.⁴
- As expected, the FOMC left the Fed funds rate target range unchanged at their December meeting. The updated "dot plot" implies no changes in the funds rate through 2020. More tellingly, not a single Committee member is projecting any further funds rate cuts through 2022. That could, of course, change as economic and financial conditions change, but it strongly suggests that the FOMC is on hold for some time to come.

Source: 1) Bureau of Economic Analysis (BEA); 2) Institute for Supply Management (ISM); 3) U.S. Census Bureau; 4) Bureau of Labor Statistics (BLS)

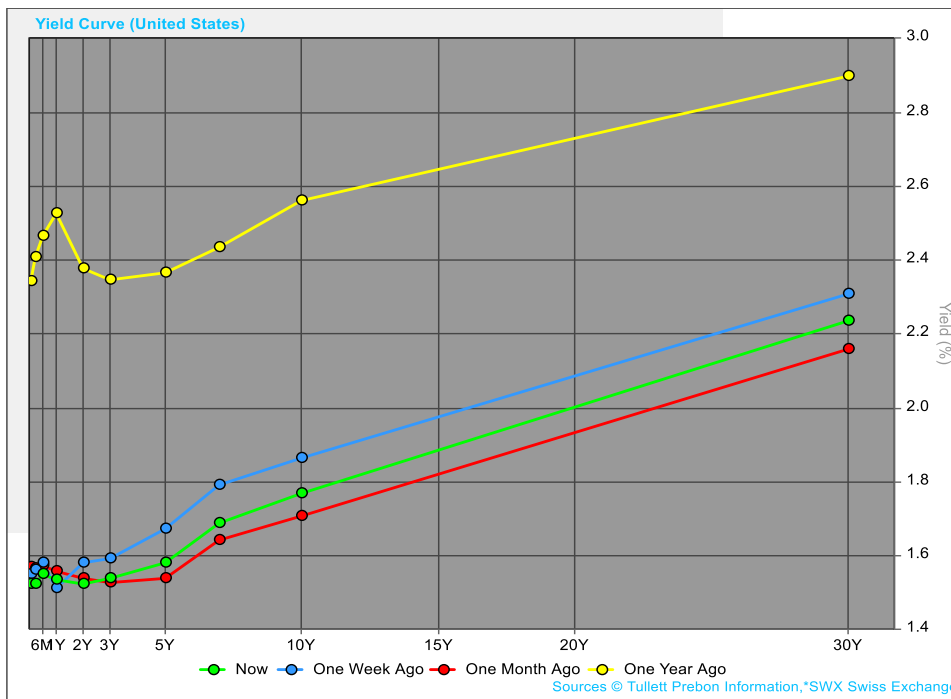
Please see important disclosure at the end of this presentation

Fixed Income

Overview & Outlook



| Yields as of December 31, 2019 | |
|--------------------------------|-------|
| US Treasuries | |
| 3-month | 1.55% |
| 2-year | 1.57% |
| 5-year | 1.69% |
| 10-year | 1.92% |
| 30-year | 2.39% |



Please see important disclosure at the end of this presentation

Summary View: Neutral

- U.S. Treasuries, despite low yields on an absolute basis and relative to where they began 2019, are appealing compared to negative yields in 'comparable' foreign sovereign bond markets. Additionally, the Fed has suggested that after three rate cuts during 2019, that no further rate cuts are expected barring an inflationary scare. This should pull capital from abroad into the U.S.
- On a relative basis, corporate bonds, both investment-grade and high yield, appear attractive versus Treasuries, but credit spreads have been, and remain tight, compensating investors very little for credit risk. We maintain a neutral allocation to high yield corporates entering 2020 as we expect the U.S. economic expansion to continue, avoiding recession in the new year, while interest rates remain low, keeping defaults at bay. Selectivity in corporate credit is crucial at present.
- Diversification remains an important concept for fixed income investors as we exit 2019 with a fluid geopolitical backdrop. We believe there is relative value in structured products and dollar-denominated emerging market debt, but right-sizing these exposures is of the utmost importance.

Risks:

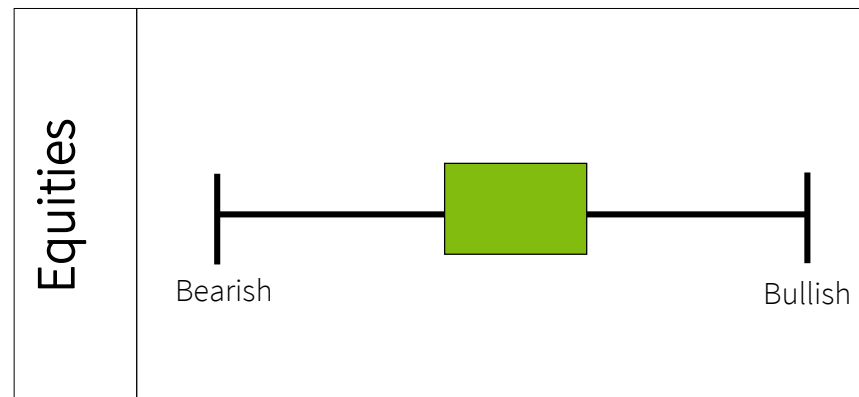
- Facing the prospect of falling short of required hurdle rates or expected inflation, investors increase allocations to riskier segments of the fixed income marketplace, and/or shift allocations out of bonds and into 'stocks that look like bonds,' taking on heightened volatility and larger potential drawdowns.; Little compensation for credit risk at present.

| | YTD 12/31/2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------------|--------|--------|--------|--------|--------|
| Total Return | | | | | | |
| Barclays US Agg Bond TR USD | 8.72% | 0.01% | 3.54% | 2.65% | 0.55% | 5.97% |
| Barclays High Yield Corp TR USD | 14.32% | -2.08% | 7.50% | 17.13% | -4.47% | 2.45% |
| Barclays Global Agg Ex USD TR | 5.09% | -2.15% | 10.51% | 1.49% | -6.02% | -3.08% |
| Barclays US Treasury US TIPS | 8.43% | -1.26% | 3.01% | 4.68% | -1.44% | 3.64% |
| FTSE Treasury Bill 3 Month (Money Market) | 2.25% | 1.86% | 0.86% | 0.33% | 0.05% | 0.03% |

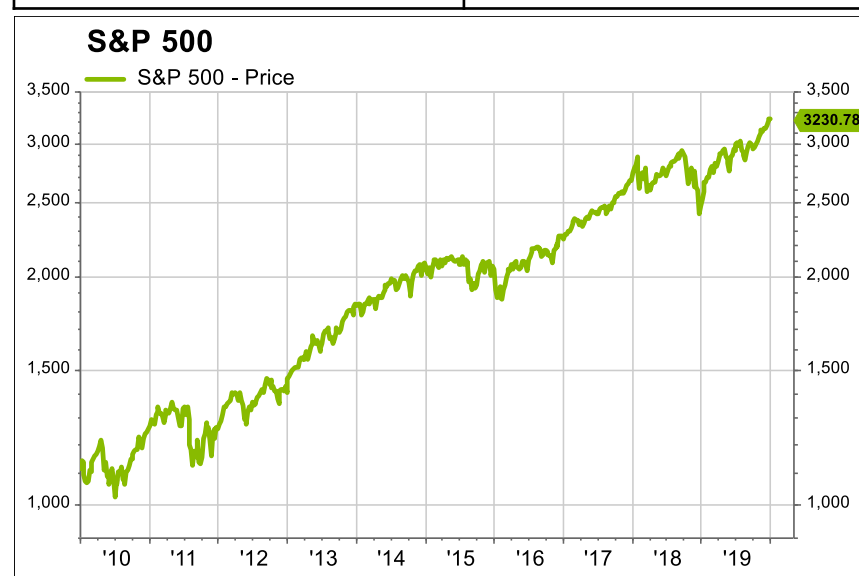
Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

Equities

Overview & Outlook



| S&P 500 Statistics as of December 31, 2019 | |
|--|-------|
| Fundamentals | |
| 2019 Earnings | \$162 |
| 2020 Earnings Estimates | \$178 |
| Forward P/E | 18x |
| Dividend Yield | 1.75% |
| Technicals | |
| % of Stocks Above 200ma | 80% |
| VIX (CBOE Volatility Index) | 13.78 |



Summary View: Neutral

- Domestic equity valuations are extended at present at around 19X projected full year 2020 earnings, but are supported by low interest rates, a condition that we expect to remain in place for most of 2020, barring a sharp uptick in inflation expectations, as the FOMC appears to be in 'wait and see' mode. Broadly speaking, stocks should continue to be beneficiaries of accommodative FOMC monetary policy and rising global liquidity as this capital seeks out higher expected returns.
- We remain positive on U.S. large-cap stocks due to diversified supply chains, an ability to pass along and/or mitigate rising labor costs and other inputs, and relatively attractive dividend yields versus what can be received investing in U.S. Treasuries at the present time.
- Domestic small-cap stocks could fare reasonably well in the new year amid continued low interest rates, but these companies have minimal supply chain flexibility and are more heavily levered, broadly speaking, making any increase in labor or raw material costs a challenge.
- International markets are attractively valued, both on an absolute basis relative to their own history, but also on a relative basis versus domestic stocks. We enter 2020 with an overweight to emerging markets at the expense of international-developed market stocks.

Risks:

- Investor complacency; Declining consumer confidence; Phase one trade deal fails to materialize.

| | YTD 12/31/2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------------|---------|--------|--------|---------|--------|
| Total Return | | | | | | |
| S&P 500 Index (Large Cap) | 31.49% | -4.38% | 21.83% | 11.96% | 1.38% | 13.69% |
| S&P 500 (Large Cap Growth) | 31.13% | -0.01% | 27.44% | 6.89% | 5.52% | 14.89% |
| S&P 500 (Large Cap Value) | 31.93% | -8.95% | 15.36% | 17.40% | -3.13% | 12.36% |
| Russell 2500 Index (Small to Mid Cap) | 27.77% | -10.00% | 16.81% | 17.59% | -2.90% | 7.07% |
| Russell Mid Cap Index (Mid Cap) | 30.54% | -9.06% | 18.52% | 13.80% | -2.44% | 13.22% |
| Russell 2000 Index (Small Cap) | 25.52% | -11.01% | 14.65% | 21.31% | -4.41% | 4.89% |
| MSCI World Ex-US (Foreign Stocks, Net Return) | 21.51% | -14.09% | 24.21% | 2.75% | -3.04% | -4.32% |
| MSCI EAFE Index (Foreign Stocks, Net Return) | 22.01% | -13.79% | 25.03% | 1.00% | -0.81% | -4.90% |
| MSCI EM (Foreign Stocks, Net Return) | 18.42% | -14.58% | 37.28% | 11.19% | -14.92% | -2.19% |

Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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